

**MINUTES  
REGULAR MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, August 17, 2007  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Michael Townsend, Chair of the ASRS Board, called the meeting to order at 8:40 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Michael Townsend, Chair  
Dr. Keith Meredith, Vice Chair  
Mr. David Byers  
Mr. Tom Connelly  
Mr. Chris Harris  
Mr. Jim McLaughlin (arrived at 8:45 a.m.)  
Mr. Lawrence Trachtenberg (arrived at 8:45 a.m.)  
Mr. Steven Zeman

Absent: Mr. Jaime Gutierrez

A quorum was present for the purpose of conducting business.

**2. Approval of the Consent Agenda**

**Motion:** Mr. Steve Zeman moved to approve Refunds, Death Benefits, Retirements and System Transfers for the month of June, 2007;

*And*

Approve the minutes of the July 20, 2007, Regular Session of the ASRS Board;

*And*

Approve the applications and agreements with:

- Black Canyon Fire District
- Clarkdale Fire District
- Pima County JTED

Dr. Keith Meredith seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

*Mr. Jim McLaughlin and Mr. Larry Trachtenberg joined the meeting at 8:45 a.m.*

**3. Approval, Modification or Rejection of Request for Rehearing for Gary Wackerly**

Mr. Tom McClory, Assistant Attorney General, addressed the Board regarding the request for rehearing by Mr. Gary Wackerly. Mr. McClory provided a brief re-cap of the May, 2007, Board meeting in which Mr. Wackerly addressed the Board regarding his appeal. Mr. McClory stated that the Board is usually bound to certain rules regarding requests for rehearing but in Mr. Wackerly's case the ASRS had decided to allow a full rehearing of Mr. Wackerly's claim due to phone difficulties during the May Board meeting.

Ms. Deanna Rader, Associate, Quarles and Brady, addressed the Board as the legal representative for Mr. Wackerly. Ms. Rader stated that due to the numerous errors on the part of the ASRS and the ASRS LTD administrator, VPA, Mr. Wackerly should not be held responsible for the entire amount owed to the ASRS. While Mr. Wackerly acknowledges that the money is owed to the ASRS, Ms. Rader stated that only after Mr. Wackerly had been told multiple times that there was no error in his receipt of LTD benefits did he stop calling to inquire about the mistake. Ms. Rader also stated that since the overpayments were received while Mr. Wackerly was married, Mr. Wackerly's ex-wife is responsible for half of the repayments.

Mr. McClory stated to the Board that Mr. Wackerly should seek to resolve this matter by amending his divorce agreement to include his ex-wife as a party responsible for repayment of half the LTD overpayment.

Mr. Dave Byers, Trustee, stated that based on the information provided by Ms. Rader he felt that a rehearing with a new Administrative Law Judge could provide more insight to the appeal.

**Motion:** Mr. Chris Harris moved to allow a new Office of Administrative Hearings (OAH) hearing.

Mr. Dave Byers seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

#### **4. Presentation, Discussion and Appropriate Action Regarding the ASRS Risk Assessment, Risk Control Strategies and Internal Audit Plan for Fiscal Years Ending 2008 and 2009**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, and Mr. Bernard Glick, Chief Internal Auditor, addressed the Board regarding the ASRS Risk Assessment, Risk Control Strategies and Internal Audit Plan for fiscal years ending 2008 and 2009.

Mr. Guarino addressed the risk assessment and risk control strategies by stating that the risk management activities were performed by Management, Internal Audit (IA) and the Operations Committee (OC) in six interrelated steps: statement of risks and threats, risk tolerance, assessment of ASRS controls, ASRS risk magnitude, control strategies and the internal audit plan.

Mr. Glick addressed the Board regarding the Internal Audit Plan for fiscal years ending 2008 and 2009 by pointing out noteworthy highlights.

**Motion:** Mr. Dave Byers moved to approve the risk assessment, risk control strategies and internal audit plan as presented to the Board.

Mr. Steve Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**5. Presentation, Discussion and Appropriate Action Regarding the ASRS Values-Focused Brand Initiative**

Mr. Anthony Guarino addressed the Board regarding the ASRS values-focused brand initiative. Mr. Guarino introduced the Brand committee to the Trustees. Members of the team include Ms. Debbora Woods-Schmidt, ASD Consultant, Ms. Jean Langston, Training and Development Manager, Mr. Dave Cannella, Communications and Media Relations Manager, Ms. Pam Vozza, Public Information Officer, Ms. Sara Orozco, Strategic Planning and Analysis Manager, Ms. Gayle Williams, Executive Assistant, Ms. Maurah Harrison, Personnel Analyst, Ms. Frida Zilberman, Human Resources Manager, and Ms. Julie Crerand, Member Services Administrator.

The Brand Committee provided a brief presentation to the Board regarding the concepts behind the new branding initiative. Ms. Woods-Schmidt explained to the Trustees that this initiative would be prevalent throughout the agency and would change the way each employee interacts with fellow staff, members and vendors.

Mr. Paul Matson, Director, recognized the committee for their outstanding work and energy in regards to the initiative.

**Motion:** Mr. Dave Byers moved to reorder and make a modification to the five core values listed in the strategic plan as presented to the Board.

Mr. Chris Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions and 1 excused, the motion was approved.

**6. Presentation, Discussion and Appropriate Action Regarding the ASRS Supplemental Retirement Savings Plan Statement Changes and Amendments**

Mr. Pat Klein, Assistant Director, External Affairs Division, Ms. Lesli Sorensen, Government Relations Officer, and Ms. Susanne Dobel, Manager, External Affairs, addressed the Board regarding the ASRS Supplemental Retirement Savings Plan statement changes and amendments.

Ms. Sorensen provided a brief review of the history of the SRSP and highlighted the various changes and amendments presented to the Board for approval.

Mr. Klein recognized Ms. Sorensen for her years of work devoted to the development and implementation of the SRSP and introduced Ms. Dobel as the individual who would be overseeing the day to day operations of the plan.

**Motion:** Mr. Dave Byers moved to adopt the ASRS Supplemental Retirement Savings Plan as it has been Fourth Amended and Restated, effective August 17, 2007, in the form circulated to the Board;

*And*

Move that the Board hereby authorizes and directs the Director of the ASRS to execute such Amended and Restated Plan for and on behalf of the Board;

*And*

Move that the Board hereby authorizes and directs the Director of the ASRS to amend and execute the ASRS Supplemental Retirement Savings Plan Trust Agreement for and on behalf of the Board.

Mr. Steve Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions and 1 excused, the motion was approved.

## **7. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance Overview for the Period Ending June 30, 2007**

Mr. Terry Dennison, Worldwide Partner, Mercer Consulting, addressed the Board regarding the Total Fund Performance Overview for the period ending June 30, 2007, highlighting specific areas of interest and concern.

Mr. Dennison reported on the Total Fund Performance for the period ending June 30, 2007.

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>Inception</b>
<b>Total Fund</b>	17.8%	11.9%	11.0%	8.4%	11.0%
<b>Benchmark*</b>	18.6%	11.6%	10.5%	7.3%	10.9%
<b>Excess Return</b>	-0.8%	0.3%	0.5%	1.1%	0.1%

\* Interim Benchmark (current): 39% S&P 500, 7% S&P 400, 7% S&P 600, 27% LB Aggregate, 19% MSCI ACWI ex US, and 1% NPI+100 bps.

Note: Interim Benchmark incorporates a proration of 5% real estate and 5% private equity.

Policy History:

- 7/1/75-12/31/79 – 40% S&P 500/60% LB Aggregate
- 1/1/80-12/31/83 – 50% S&P 500/50% LB Aggregate
- 1/1/84-12/31/91 – 60% S&P 500/40% LB Aggregate
- 1/1/92-12/31/94 – 50% S&P 500/40% LB Aggregate/10% EAFE
- 1/1/95-6/30/97 – 45% S&P 500/40% LB Aggregate/15% EAFE
- 7/1/97-12/31/99 – 50% S&P 500/35% LB Aggregate/15% EAFE
- 1/1/00-9/30/03 – 53% S&P 500/30% LB Aggregate/17% EAFE
- 10/1/03-12/31/06 – 53% S&P 500/26% LB Aggregate/15% MSCI EAFE/ACW ex. US(1)/6% NCREIF+100 bps.
- 1/1/07 – present – 31% S&P 500/7% S&P 400/7% S&P 600/26% LB Aggregate/18% MSCI ACWI ex US/6% NPI+100 bps/5% Russell 3000+300 bps

(1) MSCI EAFE/ACW ex. US Benchmark is the MSCI EAFE prior to 10/1/05 and the MSCI ACW ex. US thereafter.

## **8. Presentation, Discussion and Appropriate Action Regarding the ASRS Domestic Fixed Income Managers' Review**

Mr. Gary Dokes, Chief Investment Officer, presented the ASRS Domestic Fixed Income Managers' Review. Mr. Dokes stated that as of June 30, 2007, the market value of the ASRS fixed income managers' assets was \$5.6 billion and represented approximately 22% of the ASRS' total assets. Fixed income assets are currently managed in five portfolios: three active portfolios and two passive/enhanced passive portfolios. Approximately two-thirds of fixed income assets are managed passively. In summary, the ASRS fixed income asset class has historically achieved net investment results equal to or greater than those of the Lehman Brothers Aggregate Index.

## **9. Presentation, Discussion and Appropriate Action Regarding the System Asset Allocation**

Mr. Charlie Chittenden, Actuary, presented the System Asset Allocation to the Board. After giving a brief history of the System, Mr. Chittenden stated that over the past several years a significant amount

of discussion and analyses has occurred regarding the investment strategy and liability structure of the System. Each potential modification to the System investment strategy has its own advantages and disadvantages including rate of return differentials, downside risk exposure, and implementation and ongoing costs differentials.

Mr. Chittenden stated that the most recent Asset Allocation study for the ASRS resulted in a 5% allocation to private equity, which has the following characteristics: low short-term returns with high long term expected returns, higher short term fees and limited liquidity. As a result, it may not be appropriate to allocate 5% of the System assets to this long-term private equity strategy. In addition, given the sensitivity of System member benefits to investment return volatility, it may no longer be appropriate to maintain a 68% equity allocation for the System portfolio.

The presentation concluded with the ASRS recommendation that rather than allocate 5% of the System investments to private equity, and rather than retain the 5% in large cap U.S. equities, the ASRS allocate the 5% to a short to medium term fixed income strategy, with the precise product to be determined by the ASRS staff and presented at a future ASRS Board meeting. The strategy will be prudently implemented over time and will be fully implemented by December 31, 2008.

**Motion:** Mr. Steve Zeman moved to approve a modification of the asset allocation targets for the system as illustrated by the table on page two of the System Asset Allocation Board memo.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions and 1 excused, the motion was approved.

## **10. Director's Report**

Mr. Paul Matson had no additional comments.

## **11. Possible Presentation Regarding Board Committee Updates**

Mr. Steve Zeman, Vice Chair, External Affairs Committee, stated that there would be an EAC meeting on October 4, 2007.

Mr. Larry Trachtenberg, Chair, Investment Committee, stated that there would be an IC meeting on October 3, 2007.

Mr. Dave Byers, Chair, Operations Committee, stated that there would be an OC meeting on October 25, 2007.

## **12. Board Requests for Agenda Items**

There were no requests for future agenda items.

## **13. Call to the Public**

Mr. William Peltier, Retiree, addressed the Board regarding Mr. Paul Matson's recent Director Outreach meeting in Tucson. Mr. Peltier commented that Mr. Matson did an excellent job with his presentation and wanted to publicly thank him for it.

**14. The next ASRS Regular Board meeting is scheduled for Friday, September 28, 2007, at 1:00 p.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

**15. Adjournment of the ASRS Board**

Mr. Townsend adjourned the August 17, 2007 Board meeting at 11:26 a.m.

ARIZONA STATE RETIREMENT SYSTEM

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Anne Schrode, Secretary

Date

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Paul Matson, Director

Date